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REPORT TO THE CONGRESS 095867



Examination Of Financial Statements
Of The National Credit Union
Administration For The Fiscal Year
Ended June 30, 1973, Limited By
Restriction On Access To Credit
Union Examination Records B-164031(4)

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~Z02070~~ 095867

MAY 21, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(4)

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the examination of the financial
statements of the National Credit Union Administration for 525
fiscal year 1973.

We made our examination pursuant to the Federal Credit
Union Act, as amended in 1970 (12 U.S.C. 1752a(f) and 1789).

We are sending copies of this report to the Director,
Office of Management and Budget; the Secretary of the
Treasury; and the Administrator, National Credit Union
Administration.

A handwritten signature in dark ink, appearing to read "A. J. Kellen", is positioned above the title of the official.

Acting Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS
OF THE NATIONAL CREDIT UNION
ADMINISTRATION FOR THE FISCAL YEAR
ENDED JUNE 30, 1973, LIMITED BY
RESTRICTION ON ACCESS TO CREDIT
UNION EXAMINATION RECORDS
B-164031(4)

D I G E S T

WHY THE EXAMINATION WAS MADE

The Federal Credit Union Act, as amended in 1970, requires the Comptroller General to audit the National Credit Union Administration and to annually audit its related share insurance fund.

Background

The National Credit Union Administration was established in 1970 as an independent executive branch agency. The Administration's objectives are to promote a national system of cooperative thrift and credit organizations which are financially sound and to provide a Federal system of share insurance to safeguard member savings in credit unions.

The Administration administers its insurance functions under a share insurance fund; it administers its functions of chartering, supervising, and examining credit unions under an operating fund. GAO examined the financial statements of both funds.

OPINION ON FINANCIAL STATEMENTS

Operating fund

In GAO's opinion the Administration's financial statements present fairly the financial position of its operating fund at June 30, 1973, the results of its operations, and the changes

in its financial position for the fiscal year then ended in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

Share insurance fund

The financial statements for the share insurance fund do not show an estimate of the liability which the Administration may incur as a result of problem conditions in insured credit unions.

Because GAO's access to examination reports and related documentation was restricted, it could not determine (1) whether the Administration had taken effective action on all findings disclosed by its examinations and (2) the significance of any possible adverse effect of problem credit unions on the financial position of the insurance fund.

For these reasons GAO cannot express an overall opinion on the share insurance fund's financial statements for fiscal year 1973. In GAO's opinion, except for the foregoing comments regarding the estimated liability relating to problem conditions existing in insured credit unions and the restrictions imposed regarding access to examination reports and related data, the individual amounts shown in the financial statements are fairly stated as of

June 30, 1973, and for the fiscal year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States, applied on a basis consistent with that of the preceding year, except for the change which GAO recommended in the treatment of share insurance premiums.

OTHER MATTERS OF INTEREST

In its report (B-164031(4), Sept. 18, 1973) on the fiscal years 1971 and 1972 financial statements, GAO recommended that the Administration defer, each fiscal year, a portion of the share insurance premiums to provide a proper matching of income and expense. The Administration has adopted GAO's recommendation. As a result of changing the accounting treatment of insurance premiums, net income for fiscal years 1972 and 1973 was reduced by about \$1.7 and \$1 million, respectively. (See p. 12.)

GAO was unable to fully discharge its audit responsibilities for the share insurance fund because the Administration did not grant GAO access to the closed section of the examination reports on the credit unions it insures.

The Administration granted GAO access to the open section of the examination reports. This section contains financial data on the credit unions, any problem areas noted, and a record of action detailing the specific steps to correct any weaknesses or problems.

The closed section of the examination report contains the examiner's comments on (1) growth, service, and promotion of thrift, (2) financial

condition, (3) management, (4) prospects for future sound operations, and (5) recommendations for supervisory action to be taken before the next examination.

GAO believes that access to these records is essential because they contain opinions, conclusions, and recommendations of vital importance to the conduct of the Administration's affairs. The Administration believes that the closed sections of the reports are confidential and that access to these sections is outside the scope of GAO's audit authority. (See pp. 8 and 9.)

RECOMMENDATIONS

GAO recommends that the Administrator grant GAO access to all books, documents, files, and other Administration records, including all sections of the credit union examination reports.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Administration believes credit union examination reports and related data are confidential and that access to them is outside the scope of GAO's audit authority.

The Administrator told us that he had requested a ruling from the Department of Justice on GAO's authority for access to the Administration's examination reports and related data. (See p. 9.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report comments on GAO's inability to fully discharge its audit responsibility because Administration

officials restricted access to examination reports, files, and other records on the credit unions it insures.

Both the Administration and GAO believe that the existing statutes support their respective positions.

Therefore, an amendment to the Federal Credit Union Act may be necessary to clarify GAO's audit authority. GAO is deferring a recommendation to amend the act until the Department of Justice rules on Administration questions regarding GAO's authority for access to the desired records.

CHAPTER 1

INTRODUCTION

The National Credit Union Administration is an independent executive branch agency which charters, supervises, and examines Federal credit unions. The Administration also insures member savings in Federal credit unions and qualified State-chartered credit unions to a maximum of \$20,000.

The Administration's insurance functions are separated from its other functions of chartering, supervising, and examining credit unions. Insurance functions are administered under a share insurance fund and are financed by assessments against insured credit unions and from earnings on investments in Government interest-bearing securities. The fund, structured to be self-supporting, has a \$100 million borrowing authority from the U.S. Treasury for use in unforeseen emergencies. This borrowing authority has not been exercised.

The Administration's chartering, supervising, and examining functions are administered under an operating fund and are financed by fees received from Federal credit unions for these services and from the share insurance fund for work related to share insurance.

As of June 30, 1973, 12,751 Federal credit unions and 1,485 State-chartered credit unions were insured under the share insurance program. The Administration estimated that at June 30, 1973, shares insured in Federal credit unions amounted to \$12.1 billion and in State credit unions about \$3 billion.

MANAGEMENT AND ADMINISTRATION

The Administrator, National Credit Union Administration, directs the activities of both the operating and share insurance funds. The Administrator, appointed by the President with the advice and consent of the Senate, serves at the pleasure of the President.

A National Credit Union Board acts in an advisory capacity to the Administrator. The Board consists of a Chairman, who serves at the pleasure of the President, and one member from each of the six Administration regions, appointed by the President with the consent of the Senate. Board members, except the Chairman, serve 6-year terms.

PRESIDENT'S RECOMMENDATIONS FOR
IMPROVING THE U.S. FINANCIAL SYSTEM

In an August 1973 message to the Congress, the President recommended legislation to improve and strengthen the financial system of the United States. These recommendations are designed to (1) provide increased competition among commercial banks and thrift institutions and (2) promote adequate funds for consumer needs, including housing finance.

At present, credit unions may use their investments or increase their direct borrowing from other credit unions and such private sources as commercial banks to meet temporary liquidity problems. However, federally insured credit unions are limited by a ceiling on aggregate borrowing from all sources. To meet temporary liquidity problems, the President has recommended the establishment of a Central Discount Fund to be administered by the National Credit Union Administration. The President also recommended that:

1. Credit unions that want to expand their services and assume the burden of full service mutual thrift institutions be permitted to convert to mutual thrift institutions.
2. Less severe restrictions be imposed on credit unions' lending and investment powers.
3. Credit unions retain their tax-exempt status as long as they remain within the bounds of the existing tax law.

The Administrator, in his testimony on November 8, 1973, before the Subcommittee on Financial Institutions, Senate Committee on Banking, Housing, and Urban Affairs, stated his support of the President's recommendations as related to credit unions.

CHAPTER 2

EXAMINATION OF FEDERAL AND STATE-CHARTERED CREDIT UNIONS

The Administration examines Federal credit unions to ascertain their financial condition and compliance with applicable laws and regulations. The Administration identifies potential problem areas in management and operations and assists in strengthening management. The examination is also the principal method used to determine if the credit union continues to qualify for share insurance. The Administration conducted 12,862 examinations of Federal credit unions in fiscal year 1973.

Although State-chartered credit unions are insured under the share insurance program, the Administration does not anticipate examining them. Instead, it uses, to the extent possible, the examination reports and other information furnished by State supervisory agencies or other organizations examining credit unions on their behalf.

The Administration has an early-warning system which is designed to supplement its examinations and to serve as a protective device for the insurance fund. The system aids the Administration in identifying federally insured credit unions that might be verging on financial and management difficulties or that are, in fact, experiencing such difficulties.

The early-warning system provides for the input of certain financial and management data obtained from examinations or from reports submitted at required intervals by federally insured credit unions. Subsequent data obtained by the examiner or submitted by the credit union is then electronically compared with the previous data to determine if adverse trends have developed or persist. If an adverse trend has developed, the Administration assists the credit union in overcoming its problems.

At present, federally insured, State-chartered credit unions are not included in the early-warning system but are to be added in the future.

CHAPTER 3

RESTRICTION ON ACCESS TO REPORTS AND RECORDS ON CREDIT UNION EXAMINATIONS

During our prior audit of the Administration, we requested, but were denied, unrestricted access to the reports and related data on credit union examinations. In our opinion, this information was essential to our review and to the expression of an opinion on the Administration's statements.

After we completed our audit, Administration officials told us that GAO would be granted access to the open section of the examination reports. This section contains financial data on the credit unions, any problem areas noted during the examination, and a record which details the specific steps to be taken by credit unions to correct any weaknesses or problems. The officials also stated that we would not be given access to the closed section of the examination report. This section contains the examiner's comments and views regarding the credit unions' financial condition, insurability, management, prospects for future sound operations and growth, and recommendations for supervisory action.

The respective positions of GAO and the Administration on this matter are set forth in detail in our report to the Congress on the audit of the Administration for the periods ended June 30, 1971 and 1972 (B-164031(4), Sept. 18, 1973).

To fully discharge our audit responsibilities, we must have unrestricted access to such records which we believe are essential to the expression of an opinion on the financial statements and to an independent and objective examination. We must have a comprehensive understanding of all important factors underlying the Administration's decisions and actions that may significantly affect its financial operations and condition.

Without unrestricted access to all sections of the examination reports of insured credit unions, we cannot evaluate important information affecting the Administration's financial operations and condition. Consequently, we cannot appraise the effectiveness of the examinations in identifying insured credit unions whose failure could have an adverse effect on the financial condition of the share insurance fund.

Although the Administration has granted us partial access to the examination reports, we believe that, to reach an

informed and impartial opinion on the Administration's operations and financial condition, we must be granted unrestricted access to the reports. Since the closed section of the examination report contains data pertinent to making an informed judgment regarding credit unions, we should be granted access to this section.

Because of the restrictions imposed by the Administration, we could not determine (1) whether the Administration took effective action on all findings disclosed by its examinations and (2) the significance of any possible adverse effect of problem credit unions on the financial position of the insurance fund.

RECOMMENDATION TO THE ADMINISTRATOR
OF THE NATIONAL CREDIT UNION ADMINISTRATION

We recommend that the Administrator grant GAO access to all books, documents, files, and other Administration records, including all sections of the credit union examination reports, so we can effectively carry out our audit responsibilities.

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The Administration believes that the closed sections of the examination reports are confidential and that access is outside the scope of our audit authority. Both the Administration and GAO feel that the existing statutes support their respective positions.

The Administrator informed us on May 7, 1973, that he had requested a ruling from the Department of Justice on our authority for access to examination reports and related data. As of March 4, 1974, the Administration had not received the requested ruling from the Department of Justice.

CHAPTER 4

PROBLEM CREDIT UNIONS AND LIQUIDATIONS

PROBLEM CREDIT UNIONS

The Administration classifies Federal credit unions as unsatisfactory, weak, satisfactory, or good. An unsatisfactory credit union has critical problems requiring personal supervision by an examiner. A weak credit union has problem areas which could require further attention. A satisfactory credit union has certain factors present which could evolve into problems in the future. A good credit union has no problems.

The Administration's estimate of the number of Federal credit unions in each classification and the estimated insured savings at June 30, 1973, are shown below.

	<u>Number of credit unions</u>	<u>Estimated insured savings</u>
Good or satisfactory	8,988	\$ 8,065,369,235
Weak	2,734	3,882,971,628
Unsatisfactory	<u>1,029</u>	<u>149,659,137</u>
Total	<u>12,751</u>	<u>\$12,098,000,000</u>

Of the 1,029 unsatisfactory Federal credit unions, 295 were insured under the Administration's temporary 2-year insurance program. This program was required by the provisions of Public Law 92-221 whereby Federal credit unions whose applications for insurance were disapproved received temporary insurance for 2 years if they met certain financial requirements. If the Federal credit union had not qualified for regular insurance by the end of the 2 years, the Administrator suspended or revoked its charter. As of June 30, 1973, 642 of the 1,078 Federal credit unions initially insured under this program had qualified for permanent insurance.

The five largest unsatisfactory Federal credit unions had insured shares of approximately \$18 million as of June 30, 1973.

In correcting problems at a credit union, the Administration through its examiners attempts to obtain the cooperation of credit union officials. When corrective action is not obtainable by this method, the Administrator is authorized to take certain administrative actions, such as issuance of cease and desist orders; termination of share insurance;

suspension or removal of directors, officers, or committee members; and suspension of the charter through legal action. During fiscal year 1973, the Administrator suspended the charters of 52 Federal credit unions and terminated share insurance of 4 State credit unions.

LIQUIDATIONS

During fiscal year 1973, 399 Federal credit unions entered into voluntary liquidation. The Administrator, in order to expedite the voluntary liquidation for 139 of these Federal credit unions, guaranteed the purchase of their loans by other credit unions, credit union trade associations, and financial institutions under authority granted him by section 208 of title II of the Federal Credit Union Act.

At June 30, 1973, 191 guarantee agreements created a contingent liability of \$3,909,506 upon the insurance fund. The contingent liability at June 30, 1972, was \$911,725. The actual loss to the fund is anticipated to be a relatively small percentage of the total guarantees.

During the fiscal year, the Administrator also placed 50 insured, insolvent Federal credit unions in involuntary liquidation. Payment of members' shares in these credit unions by the fund amounted to \$1,365,169 in fiscal year 1973. As of June 30, 1973, about \$501,000, however, had been returned to the fund.

The largest Federal credit union placed into involuntary liquidation had assets of \$536,631. The total payment to the members amounted to \$362,081, of which \$328,000 had been returned to the insurance fund at June 30, 1973.

CHAPTER 5

COMMENTS ON THE FINANCIAL STATEMENTS

SHARE INSURANCE PREMIUMS

Insured Federal and State credit unions are required to pay share insurance premiums on or before January 31 of each year. These premiums entitle the credit unions to share insurance for a calendar year. Before fiscal year 1973, the Administration recognized the premiums as income in the fiscal year in which they were received. Since the Administration's accounts are maintained on an accrual basis and are kept on a fiscal year basis, only one-half of the premiums received in January would apply to the fiscal year ended June 30.

In our prior audit report (B-164031(4), Sept. 18, 1973), we recommended that a portion of the share insurance premiums be deferred each fiscal year to provide a proper matching of income and expense. The Administration agreed with our recommendation and has made the suggested adjustment to defer insurance premiums. The Administration's fiscal year 1973 financial statements show the deferral of share insurance premiums, and the fiscal year 1972 statements have been restated to show the deferral of the premiums. The effect of the deferral of share insurance premiums for the fiscal years ended June 30, 1972 and 1973, has been a reduction of net income of about \$1,700,000 and \$1,000,000, respectively.

ALLOCATION OF COSTS TO SHARE INSURANCE FUND

Certain costs incurred by the Administration--such as personnel salaries and benefits, transportation of people and goods, depreciation, rent, and communications--benefit both the operating fund and the share insurance fund. These costs, which cannot be directly attributed to either fund, must be allocated to both the funds.

During fiscal year 1973 the Administration changed the basis for allocating costs to the share insurance fund. The basis used to compute the amounts charged to the share insurance fund during the period July 1 to December 31, 1972, was the number of supervisory examinations performed. For the period January 1 to June 30, 1973, the basis for the allocations was the actual examiner time spent on supervision activity.

If the method used during the period January 1 to June 30, 1973, had been applied to the entire fiscal year, we estimate net income for the operating fund would have

increased about \$336,000 with a corresponding decrease in share insurance net income for the fiscal year.

The Administration advised us that the allocation basis was changed during the fiscal year because the basis used during the period January 1 to June 30, 1973, would provide a more realistic apportionment of administrative overhead costs to the share insurance fund. The Administration intends to continue using this method in subsequent fiscal years unless changed circumstances warrant modifying the procedure.

The basis for allocation used by the Administration provides a logical and reasonable approach to the allocation of administrative overhead costs to the share insurance fund.

CHAPTER 6

SCOPE OF AUDIT

We examined the operating fund's statement of financial condition at June 30, 1973, and the related statements of income and expense and of changes in financial position for the fiscal year then ended. We also examined the share insurance fund's statement of financial condition at June 30, 1973; the related statement of income and expense and of changes in financial position for the fiscal year ended June 30, 1973; and the statement of analysis of the share insurance fund from the fund's inception.

We made our examination in accordance with generally accepted auditing standards. With the exception of an unrestricted review of credit union examination reports, our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control.

CHAPTER 7

OPINION ON FINANCIAL STATEMENTS

The financial statements in this report (schs. 1 through 7)--except the statements of changes in financial position, the analysis of the share insurance fund, and the notes to the financial statements--were prepared by the Administration and were modified by us to improve their clarity. The share insurance fund's fiscal year 1972 financial statements were modified to show the change in accounting procedure for share insurance premiums.

The Comptroller General has not approved the Administration's accounting system design. The Administration's accounting principles and standards, however, were approved in September 1970. The system design is scheduled for submission in December 1974.

OPERATING FUND

In our opinion, the accompanying financial statements present fairly the financial position of the Administration's operating fund at June 30, 1973, and the results of its operations and the changes in its financial position for the fiscal year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

SHARE INSURANCE FUND

The share insurance fund financial statements do not show an estimate of the liability which the Administration could incur as a result of problem conditions existing in insured credit unions. Because our access to examination reports on insured credit unions was restricted, we could not determine (1) whether the Administration had taken effective followup action on findings revealed by the Administration's examiners and (2) the significance of any possible adverse effect of problem credit unions on the financial position of the insurance fund.

For these reasons we cannot express an overall opinion on the accompanying financial statements for fiscal year 1973. In our opinion, except for the foregoing comments regarding the estimated liability relating to problem conditions existing in insured credit unions and the restrictions imposed regarding access to financial reports and related data, the

individual amounts shown in the financial statements are fairly stated as of June 30, 1973, and for the fiscal year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States applied on a basis consistent with that of the preceding year, except for the change discussed in note 3-- which we recommend--in the treatment of share insurance premiums.

NATIONAL CREDIT UNION ADMINISTRATION
 OPERATING FUND
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION
 JUNE 30, 1973, AND JUNE 30, 1972

ASSETS (notes 1 and 2)	<u>June 30, 1973</u>		<u>June 30, 1972</u>	
CURRENT ASSETS:				
Cash:				
With the U.S. Treasury and in transit	\$ 992,023		\$1,015,093	
On hand	<u>500</u>	\$ 992,523	<u>500</u>	\$1,015,593
Accounts receivable		3,584		27,827
Accrued fees:				
Supervisor fees	971,864		1,087,088	
Examination fees	<u>124,680</u>	1,096,544	<u>155,092</u>	1,242,180
Travel advances		42,181		83,230
Estimated receivables for examinations in process		<u>98,619</u>		<u>101,286</u>
Total current assets		2,233,451		2,470,116
FIXED ASSETS (note 1):				
Equipment	380,027		288,983	
Less accumulated depreciation	<u>112,043</u>	267,984	<u>123,830</u>	165,153
OTHER ASSETS:				
Reimbursements due from share insurance fund		<u>965,253</u>		<u>635,361</u>
Total assets		<u>\$2,466,688</u>		<u>\$3,270,630</u>
 LIABILITIES AND RETAINED EARNINGS				
CURRENT LIABILITIES:				
Accounts payable	\$ 180,320		\$ 238,147	
Accrued liabilities	534,429		502,238	
Liability for advances from other agencies	65,909		149,813	
Liability for accrued annual leave	<u>683,152</u>		<u>659,638</u>	
Total current liabilities		\$1,463,810		\$1,549,836
OTHER LIABILITIES:				
Liability for agency cashier funds		<u>500</u>		<u>500</u>
Total liabilities		1,464,310		1,550,336
RETAINED EARNINGS:				
Reserve for claims	300,000		300,000	
Current and prior years' earnings	<u>1,702,378</u>	<u>2,002,378</u>	<u>1,420,294</u>	<u>1,720,294</u>
Total liabilities and retained earnings		<u>\$3,466,688</u>		<u>\$3,270,630</u>

The notes following schedule 3 are an integral part of this statement.

BEST DOCUMENT AVAILABLE

NATIONAL CREDIT UNION ADMINISTRATION

OPERATING FUND

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FOR THE FISCAL YEARS ENDED

JUNE 30, 1973, AND JUNE 30, 1972

	<u>Fiscal year 1973</u>	<u>Fiscal year 1972</u>
INCOME (note 3):		
Charter fees	\$ 7,765	\$ 9,260
Supervision fees (note 1)	2,072,100	2,266,000
Examination fees	<u>7,337,336</u>	<u>7,121,354</u>
Total income	\$9,417,201	\$9,396,614
OPERATING EXPENSES (note 4):		
Personnel compensation	6,356,346	6,651,112
Personnel benefits	664,813	651,029
Travel	942,956	929,524
Transportation of things	53,651	47,486
Rent and communications	443,656	204,181
Printing and reproduction	134,331	109,522
Other contractual services	397,268	389,565
Supplies and materials	83,559	100,905
Depreciation of equipment	35,023	30,000
Annual leave	<u>23,514</u>	<u>46,060</u>
Total expenses	<u>9,135,117</u>	<u>9,159,384</u>
Net income	<u>\$ 282,084</u>	<u>\$ 237,230</u>

The notes following schedule 3 are an integral part of this statement.

NATIONAL CREDIT UNION ADMINISTRATION

OPERATING FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR FISCAL YEAR 1973

FUNDS PROVIDED:

Income from charter, supervision, and examination fees	\$9,417,201
Decrease in net working capital	<u>150,639</u>
	<u>\$9,567,840</u>

FUNDS APPLIED:

Operating expenses, excluding depreciation	\$9,100,094
Purchase of equipment	137,854
Increase in amounts due from the share insurance fund	<u>329,892</u>
	<u>\$9,567,840</u>

The notes following this schedule are an integral part of the statement.

NOTES TO FINANCIAL STATEMENTS

OPERATING FUND

1. Accounting policies:
 - Supervision fees applicable to the second half of a fiscal year are not received by the Administration until the following fiscal year. Accordingly, the Administration estimates a portion of the fees. The estimate is based on management forecasts of Federal credit union growth.
 - Fixed assets are depreciated on a straight-line basis using a composite useful life of 10 years.
 - The basis for allocating costs to the share insurance fund was modified during fiscal year 1973. Costs had been allocated based on the number of supervisory examinations performed. The current allocation is based on the actual examiner time spent on supervision activity.
2. These statements do not include accountability for the funds held in trust for unpaid shareholders of liquidated credit unions. These funds, which amounted to \$342,272.71 and \$251,456.24 at June 30, 1972 and 1973, respectively, were held by the U.S. Treasury.
3. By action of the Administrator, supervision fees for calendar year 1973 were reduced 25 percent, except when the minimum fee was still required by the Federal Credit Union Act.
4. These statements do not include costs incurred by the Administration in completing certain contract work for the Office of Economic Opportunity and the National Association of Housing and Redevelopment. Costs incurred under these contracts amounted to \$159,809.81 and \$35,277.55 in fiscal years 1972 and 1973, respectively. These costs were reimbursed to the Administration with the exception of \$27,801 and \$3,584 which were outstanding at June 30, 1972 and 1973, respectively.

NATIONAL CREDIT UNION ADMINISTRATION

SHARE INSURANCE FUND

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1973, AND JUNE 30, 1972

ASSETS	June 30, 1973	June 30, 1972
CURRENT ASSETS:		
Cash with U.S. Treasury and in transit	\$ 254,723	\$ 403,326
Accrued interest receivable	198,654	111,886
Loans to insured credit unions	<u>200,000</u>	<u>-</u>
Total current assets	653,377	515,212
INVESTMENTS IN U.S. GOVERNMENT SECURITIES (note 1)	26,881,001	16,178,872
FIXED ASSETS (note 2):		
Equipment	-	4,218
OTHER ASSETS:		
Assets acquired from liquidating credit unions	\$ 25,090	-
Loans to insured credit unions	<u>83,738</u> <u>108,828</u>	<u>-</u>
Total assets	<u>\$27,643,206</u>	<u>\$16,698,302</u>
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES:		
Deferred share insurance premiums (note 3)	\$ 5,870,411	\$ 4,869,049
OTHER LIABILITIES (note 4):		
Liability to the operating fund	\$965,253	\$635,361
Liability for advances from another agency (note 5)	480,864	504,000
Liability for funds held in trust	<u>46,604</u> <u>1,492,721</u>	<u>-</u> <u>1,139,361</u>
Total liabilities	7,363,132	6,008,410
RETAINED EARNINGS:		
Current and prior years' earnings (sch. 7)	<u>20,280,074</u>	<u>10,689,892</u>
Total liabilities and retained earnings	<u>\$27,643,206</u>	<u>\$16,698,302</u>

The notes following schedule 7 are an integral part of this statement.

GAO's opinion on these statements is set forth on pages 15 and 16.

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NATIONAL CREDIT UNION ADMINISTRATION

SHARE INSURANCE FUND

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FOR THE FISCAL YEARS ENDED

JUNE 30, 1973, AND JUNE 30, 1972

	<u>Fiscal year 1973</u>	<u>Fiscal year 1972</u>
INCOME:		
Share insurance premiums (note 3)	\$10,722,687	\$8,036,803
Income from U.S. Government obligations	<u>1,089,255</u>	<u>496,820</u>
Total income	\$11,811,942	\$8,533,623
OPERATING EXPENSES (note 1):		
Salaries and personnel benefits	1,088,369	454,933
Travel	125,118	13,682
Other administrative expenses	<u>143,451</u>	<u>127,472</u>
Total operating expenses	1,356,938	596,087
Insurance payments to credit union shareholders and expenses	<u>864,822</u>	<u>775</u>
Total expenses	<u>2,221,760</u>	<u>596,862</u>
Net income	<u>\$ 9,590,182</u>	<u>\$7,936,761</u>

The notes following schedule 7 are an integral part of this statement.

GAO's opinion on these statements is set forth on pages 15 and 16.

NATIONAL CREDIT UNION ADMINISTRATION

SHARE INSURANCE FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR FISCAL YEAR 1973

FUNDS PROVIDED:

Insurance premiums	\$10,722,687
Increase in deferred share insurance premiums	1,001,362
Investment income	538,536
Matured U.S. Treasury investments	16,660,874
Increase in amounts owed to the operating fund	329,892
Transfer of fixed assets to the operating fund	4,218
Trusteed accounts	46,604
Sale of Treasury investments	<u>525,167</u>
	<u>\$29,829,340</u>

FUNDS APPLIED:

Purchase of investments	\$27,337,451
Operating expenses	1,356,938
Insurance payments to credit union shareholders	864,822
Loans to insured credit unions	108,828
Payments to OEO liquidating credit unions	23,136
Increase in net working capital	<u>138,165</u>
	<u>\$29,829,340</u>

The notes following schedule 7 are an integral part of this statement.

GAO's opinion on these statements is set forth on pages 15 and 16.

SCHEDULE 7

NATIONAL CREDIT UNION ADMINISTRATION

ANALYSIS OF SHARE INSURANCE FUND

FROM JANUARY 1, 1971, TO JUNE 30, 1973

INCOME:

Insurance premiums	\$21,927,244
Income from U.S. Government obligations	<u>1,686,660</u>
Total income	<u>\$23,613,904</u>

EXPENSES:

Operating expenses	\$ 2,468,234
Share insurance payments to credit union shareholders	<u>865,596</u>
Total expenses	<u>3,333,830</u>

Share insurance fund, net income accumulated since inception	<u>\$20,280,074</u>
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The notes following this schedule are an integral part of the statement.

GAO's opinion on these statements is set forth on pages 15 and 16.

NOTES TO FINANCIAL STATEMENTS

SHARE INSURANCE FUND

1. Accounting policies:
 - U.S. Government securities are presented at amortized cost, which is the purchase price of the securities less the amortized premium or plus the amortized discount. Premiums and discounts are amortized on a straight-line basis from the acquisition date to the maturity date.
 - The basis for costs allocated from the operating fund was modified during fiscal year 1973. Costs had been allocated on the basis of the number of supervisory examinations performed. The current allocation is based on the actual examiner time spent on supervision activity.
2. Accountability for equipment acquired in fiscal year 1972 was transferred to the operating fund in September 1972.
3. Insured credit unions are required to pay share insurance premiums on a calendar-year basis. Before fiscal year 1973 these premiums were recognized as income in the fiscal year in which they were received. To provide a proper matching of revenue and expense, the accounting policy was changed in fiscal year 1973 to provide for the deferral of a portion of the premiums each year. The deferral of the premiums is shown in the fiscal year 1973 financial statements, and the fiscal year 1972 statements have been restated to show the deferral. The effects of the deferral of the share insurance premiums are
 - a reduction in net income for fiscal years 1972 and 1973 of about \$1.7 million and \$1 million, respectively, and
 - the establishment of a current liability--deferred share insurance premiums. The liability represents the portion of the premiums applicable to the following fiscal year.
4. The Administrator, under authority granted by section 208 of title II of the Federal Credit Union Act, may guarantee the purchase of the loans of liquidating credit unions by other organizations to expedite the distribution of assets. These guarantees create a contingent liability on the share insurance fund that is not included in these statements, as follows:

June 30, 1972	\$ 911,725
June 30, 1973	3,909,506

The actual loss to the fund is anticipated to be a relatively small percentage of the total guarantees.

During fiscal year 1973, a number of the guarantee agreements expired and the Administration repurchased the loans specified in the contracts. At June 30, 1973, the Administration had \$25,090 of these loans.

5. The liability of \$480,864 to other agencies arose from an agreement with the Office of Economic Opportunity which provided the funds to make selected Federal credit unions insurable. During fiscal year 1973, \$23,136 had been paid to liquidating OEO-related Federal credit unions included under the agreement.

PRINCIPAL OFFICIALS OF THE
NATIONAL CREDIT UNION ADMINISTRATION
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR:		
Herman Nickerson, Jr.	Sept. 1970	Present
J. Deane Gannon (acting)	Mar. 1970	Sept. 1970
DEPUTY ADMINISTRATOR:		
J. Deane Gannon	Sept. 1970	Present
ASSISTANT ADMINISTRATOR FOR ADMINISTRATION:		
Carroll Smith	Mar. 1970	Present

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